

AUDITING PROCEDURES REPORT

Issue under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name City of Omer	County Arenac
Audit Date March 31, 2004	Opinion Date May 8, 2004	Date Accountant Report Submitted to State: May 8, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

RECEIVED
DEPT. OF TREASURY

MAY 27 2004

LOCAL AUDIT & FINANCE DIV.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|--|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during they year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) Campbell, Kusterer & Co., P.C.			
Street Address 512 N. Lincoln, Suite 100, P.O. Box 686		City Bay City	State MI
Accountant Signature Campbell, Kusterer & Co., P.C.		Zip 48707	

CITY OF OMER
Arenac County, Michigan

TABLE OF CONTENTS

	<u>Exhibit</u>	<u>Page</u>
Independent Auditor's Report		1-2
General Purpose Financial Statements:		
Combined Balance Sheet – All Fund Types	A	3
Combined Statement of Revenues, Expenditures and Changes in Fund Balances – All Governmental Fund Types	B	4
Combined Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General and Special Revenue Funds	C	5-6
Combined Statement of Revenues, Expenses, and Changes in Retained Earnings – All Proprietary Fund Types	D	7
Combined Statements of Cash Flows – All Proprietary Fund Types	E	8
Notes to Financial Statements		9-17
Supplementary Information:		
Combining Balance Sheet – All Special Revenue Funds	F	18
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – All Special Revenue Funds	G	19
Current Tax Collection Fund - Statement of Changes in Assets and Liabilities	H	20
Current Tax Collection Fund – Statement of Cash Receipts and Disbursements	I	21
Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Standards Performed in Accordance with Government Auditing Standards	J	22

CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

MARK J. CAMPBELL, CPA
KENNETH P. KUSTERER, CPA

512 N. LINCOLN AVE. - SUITE 100
P.O. BOX 686
BAY CITY, MICHIGAN 48707

TEL (989) 894-1040
FAX (989) 894-5494

INDEPENDENT AUDITOR'S REPORT

May 8, 2004

To the City Council
City of Omer
Arenac County, Michigan

We have audited the accompanying general purpose financial statements of the City of Omer, Arenac County, Michigan, as of March 31, 2004, and for the year then ended, as listed in the table of contents. These general purpose financial statements are the responsibility of the City of Omer's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States and the Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The City has not maintained a record of its general fixed assets, and accordingly, a statement of general fixed assets, required by generally accepted accounting principles, is not included in the general purpose financial statements.

In our opinion, except that the omission of the financial statement described above results in an incomplete presentation, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Omer, Arenac County, Michigan, as of March 31, 2004, and results of its operations and the cash flows of its proprietary fund type for the year then ended in conformity with accounting principles generally accepted in the United States.

In accordance with Government Auditing Standards, we have also issued our report dated May 8, 2004, on our consideration of the City's internal control over financial reporting and on tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audits.

To the City Council
City of Omer
Arenac County, Michigan
May 8, 2004
Page 2

Our audit was conducted for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the general purpose financial statements of the City of Omer, Arenac County, Michigan. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly presented in all material respects in relation to the general purpose financial statements taken as a whole.

Campbell, Kusterer & Co., P.C.

CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants

CITY OF OMER
Arenac County, Michigan

COMBINED BALANCE SHEET – ALL FUND TYPES
March 31, 2004

EXHIBIT A

<u>Assets</u>	<u>Governmental Fund Types</u>		<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Enterprise</u>	<u>Agency</u>
Cash in bank	126 021 52	104 344 68	27 284 99	59 256 80
Accounts receivable	-	-	3 107 35	-
Taxes receivable	9 129 26	2 755 00	422 60	-
Due from State of Michigan	-	6 547 48	-	-
Due from other funds	50 783 57	999 28	-	-
Restricted cash in bank	-	-	20 335 94	-
Water system	-	-	852 990 50	-
Accumulated depreciation	-	-	(178 079 86)	-
Total Assets	<u>185 934 35</u>	<u>114 646 44</u>	<u>726 061 52</u>	<u>59 256 80</u>
<u>Liabilities and Fund Equity</u>				
Liabilities:				
Deposits payable	-	-	8 789 00	-
Due to other funds	-	999 28	-	50 783 57
Due to other units	-	-	-	8 473 23
Bonds payable	-	-	337 000 00	-
Total liabilities	<u>-</u>	<u>999 28</u>	<u>345 789 00</u>	<u>59 256 80</u>
Fund equity:				
Contributed capital	-	-	363 713 36	-
Retained earnings:				
Reserved	-	-	15 335 94	-
Unreserved	-	-	1 223 22	-
Fund balances:				
Unreserved:				
Undesignated	<u>185 934 35</u>	<u>113 647 16</u>	-	-
Total fund equity	<u>185 934 35</u>	<u>113 647 16</u>	<u>380 272 52</u>	<u>-</u>
Total Liabilities and Fund Equity	<u>185 934 35</u>	<u>114 646 44</u>	<u>726 061 52</u>	<u>59 256 80</u>

The accompanying notes are an integral part of these financial statements.

Total
(Memorandum
Only)

316 907 99
3 107 35
12 306 86
6 547 48
51 782 85
20 335 94
852 990 50
(178 079 86)

1 085 899 11

8 789 00
51 782 85
8 473 23
337 000 00
406 045 08

363 713 36

15 335 94
1 223 22

299 581 51
679 854 03

1 085 899 11

CITY OF OMER
Arenac County, Michigan

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES – ALL GOVERNMENTAL FUND TYPES

EXHIBIT B

Year Ended March 31, 2004

	<u>Governmental Fund Types</u>		Total (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Revenues:			
Property taxes	55 087 05	-	55 087 05
Licenses and permits	30 00	-	30 00
State revenue sharing	40 699 00	34 016 00	74 715 00
Charges for services	1 844 98	-	1 844 98
Interest	1 926 01	597 13	2 523 14
Rent	6 545 00	-	6 545 00
Equipment rental	9 139 42	-	9 139 42
Special assessments	1 376 04	14 788 36	16 164 40
Miscellaneous	<u>4 915 32</u>	<u>553 60</u>	<u>5 468 92</u>
Total revenues	<u>121 562 82</u>	<u>49 955 09</u>	<u>171 517 91</u>
Expenditures:			
General government	90 620 76	-	90 620 76
Public safety	49 790 97	-	49 790 97
Sanitation	-	15 354 60	15 354 60
Public works	13 192 54	-	13 192 54
Highways and streets	-	28 319 79	28 319 79
Capital outlay	<u>4 372 00</u>	<u>-</u>	<u>4 372 00</u>
Total expenditures	<u>157 976 27</u>	<u>43 674 39</u>	<u>201 650 66</u>
Excess (deficiency) of revenues over expenditures	<u>(36 413 45)</u>	<u>6 280 70</u>	<u>(30 132 75)</u>
Other financing sources (uses):			
Operating transfers in	-	5 144 22	5 144 22
Operating transfers out	<u>-</u>	<u>(5 144 22)</u>	<u>(5 144 22)</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	<u>(36 413 45)</u>	<u>6 280 70</u>	<u>(30 132 75)</u>
Fund balances, April 1	<u>222 347 80</u>	<u>107 366 46</u>	<u>329 714 26</u>
Fund Balances, March 31	<u>185 934 35</u>	<u>113 647 16</u>	<u>299 581 51</u>

The accompanying notes are an integral part of these financial statements.

CITY OF OMER
Arenac County, Michigan

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES – BUDGET AND ACTUAL –
GENERAL AND SPECIAL REVENUE FUNDS
Year Ended March 31, 2004

EXHIBIT C
Page 1

	General Fund		
	Budget	Actual	Over (Under) Budget
Revenues:			
Property taxes	10 000 00	55 087 05	45 087 05
Licenses and permits	155 00	30 00	(125 00)
State revenue sharing	40 000 00	40 699 00	699 00
Charges for services	1 500 00	1 844 98	344 98
Interest	1 805 00	1 926 01	121 01
Rent	6 400 00	6 545 00	145 00
Equipment rental	5 000 00	9 139 42	4 139 42
Special assessments	-	1 376 04	1 376 04
Miscellaneous	5 000 00	4 915 32	(84 68)
Total revenues	<u>69 860 00</u>	<u>121 562 82</u>	<u>51 702 82</u>
Expenditures:			
General government	97 700 00	90 620 76	(7 079 24)
Public safety	51 600 00	49 790 97	(1 809 03)
Sanitation	-	-	-
Public works	16 460 00	13 192 54	(3 267 46)
Highways and streets	-	-	-
Capital outlay	5 500 00	4 372 00	(1 128 00)
Total expenditures	<u>171 260 00</u>	<u>157 976 27</u>	<u>(13 283 73)</u>
Excess (deficiency) of revenues over expenditures	<u>(101 400 00)</u>	<u>(36 413 45)</u>	<u>64 986 55</u>
Other financing sources (uses):			
Operating transfers in	-	-	-
Operating transfers out	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>

The accompanying notes are an integral part of these financial statements.

Special Revenue Funds

<u>Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
-	-	-
-	-	-
30 000 00	34 016 00	4 016 00
-	-	-
1 150 00	597 13	(552 87)
-	-	-
-	-	-
18 000 00	14 788 36	(3 211 64)
550 00	553 60	3 60
<u>49 700 00</u>	<u>49 955 09</u>	<u>255 09</u>
-	-	-
-	-	-
14 715 00	15 354 60	639 60
-	-	-
29 950 00	28 319 79	(1 630 21)
<u>-</u>	<u>-</u>	<u>-</u>
<u>44 665 00</u>	<u>43 674 39</u>	<u>(990 61)</u>
-	-	-
<u>5 035 00</u>	<u>6 280 70</u>	<u>1 245 70</u>
-	5 144 22	5 144 22
<u>-</u>	<u>(5 144 22)</u>	<u>(5 144 22)</u>
<u>-</u>	<u>-</u>	<u>-</u>

CITY OF OMER
Arenac County, Michigan

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES – BUDGET AND ACTUAL –
GENERAL AND SPECIAL REVENUE FUNDS
Year Ended March 31, 2004

EXHIBIT C
Page 2

	<u>General Fund</u>		<u>Over (Under) Budget</u>
	<u>Budget</u>	<u>Actual</u>	
Excess (deficiency) of revenues and other sources over expenditures and other uses	(101 400 00)	(36 413 45)	64 986 55
Fund balances, April 1	<u>183 942 00</u>	<u>222 347 80</u>	<u>38 405 80</u>
Fund Balances, March 31	<u>82 542 00</u>	<u>185 934 35</u>	<u>103 392 35</u>

The accompanying notes are an integral part of these financial statements.

<u>Special Revenue Funds</u>		
<u>Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
5 035 00	6 280 70	1 245 70
<u>80 470 00</u>	<u>107 366 46</u>	<u>26 896 46</u>
<u>85 505 00</u>	<u>113 647 16</u>	<u>28 142 16</u>

CITY OF OMER
Arenac County, Michigan

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN RETAINED EARNINGS – ALL PROPRIETARY FUND TYPES
Year Ended March 31, 2004

EXHIBIT D

Total
Enterprise

Water Fund

Operating revenues:	
Charges for services	
Miscellaneous	50 065 78
Total operating revenues	<u>19 255 40</u>
	<u>69 321 18</u>
Less operating expenses:	
Wages	
Benefits	23 405 72
Supplies	1 790 54
Repairs and maintenance	2 602 81
Insurance	17 023 14
Utilities	498 24
Water purchases	5 944 36
Miscellaneous	7 622 13
Total operating expenses before depreciation	<u>10 196 34</u>
	<u>69 083 28</u>
Operating income before depreciation	
Less: depreciation	237 90
	<u>(16 957 35)</u>
Operating income (loss)	
	<u>(16 719 45)</u>
Other income and (expense):	
Interest income	
Amortization of contributed capital	774 09
Interest expense	6 938 94
Net other income and (expense)	<u>(15 390 38)</u>
	<u>(7 677 35)</u>
Net income (loss)	
	(24 396 80)
Retained earnings, April 1	
	<u>40 955 96</u>
Retained Earnings, March 31	<u><u>16 559 16</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF OMER
Arenac County, Michigan

COMBINED STATEMENT OF CASH FLOWS – ALL PROPRIETARY FUND TYPES EXHIBIT E
Year Ended March 31, 2004

	<u>Total Enterprise</u>
	<u>Water Fund</u>
Cash flows from operating activities:	
Cash received from customers	50 803 45
Cash payments to suppliers for goods and services	(44 839 56)
Cash payments to employees for services	(23 405 72)
Other operating revenues	19 255 40
Net cash provided (used) for operating activities	<u>1 813 57</u>
Cash flows from capital and related financing activities:	
Principal paid on bonds	(5 000 00)
Interest paid on bonds	(15 390 38)
Net cash provided (used) for capital and related financing activities	<u>(20 390 38)</u>
Cash flows from investing activities:	
Interest income	774 09
Net cash provided (used) for investing activities	<u>774 09</u>
Net increase (decrease) in cash and cash equivalents	(17 802 72)
Cash and cash equivalents, April 1	<u>65 423 65</u>
Cash and Cash Equivalents, March 31	<u><u>47 620 93</u></u>
Reconciliation of operating income to net cash provided (used) for operating activities:	
Operating income (loss)	(16 719 45)
Depreciation	16 957 35
Increase (decrease) in assets and liabilities:	
Accounts receivable	(737 67)
Accounts payable	838 00
Net Cash Provided (Used) for Operating Activities	<u><u>1 813 57</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF OMER
Arenac County, Michigan

NOTES TO FINANCIAL STATEMENTS

March 31, 2004

Note 1 – Summary of Significant Accounting Policies

The accounting policies of the City of Omer, Arenac County, Michigan, conform to generally accepted accounting principles as applicable to governmental units.

Reporting Entity

In accordance with the provisions of the Governmental Accounting Standards Board's Statement No. 14 "The Financial Reporting Entity," the general purpose financial statements of the City contain all the City funds and account groups that are controlled by or dependent on the City's executive or legislative branches.

The reporting entity is the City of Omer. The City is governed by an elected City Council. As required by generally accepted accounting principles, these financial statements present the City as the primary government.

Joint Venture

The City is a member of the Omer-Arenac Fire Board. The City appoints two members to the joint venture's governing board, which then approves the annual budget. Financial information of the joint venture may be obtained from the Fire Board at 2234 Sterling Road in Omer, Michigan.

Basis of Presentation

The financial activities of the local unit are recorded in separate funds and account groups, categorized and described as follows:

General Fund

This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state and federal distributions, grants, and other intergovernmental revenues.

Special Revenue Funds

These funds are used to account for specific governmental revenues requiring separate accounting because of legal or regulatory provisions or administrative action.

Proprietary Fund

CITY OF OMER
Arenac County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2004

Note 1 – Summary of Significant Accounting Policies (continued)

Enterprise Fund

The Enterprise Fund reports operations that provide services which are financed primarily by user charges, or activities where periodic measurement of net income is appropriate for capital maintenance, public policy, management control or other purposes.

Fiduciary Fund

This fund is used to account for assets held in trust or as an agent for others.

Measurement Focus/Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present revenues and other financing sources and, expenditures and other financial uses in net current assets.

The modified accrual basis of accounting is followed by the governmental fund types. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual which is both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures, other than principal and interest on long-term debt, are recorded when the related fund liability is incurred, if measurable. Principal and interest on general long-term debt is recognized when due.

Revenues from local sources consist primarily of property taxes. Property taxes and revenues received from the State are recognized when susceptible to accrual. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned since they are measurable and available.

The proprietary fund type is accounted for on a flow of economic resources measurement focus. With this measurement focus all assets and all liabilities associated with the operation of this fund are included on the balance sheet. Fund equity is segregated into contributed capital and retained earnings components. Proprietary fund type operating statement present revenues and expenses in net total assets. The accrual basis of accounting is utilized by the proprietary fund type. Under this basis of accounting revenues are recognized when earned and expenses are recognized when the related liability is incurred.

CITY OF OMER
Arenac County, Michigan

NOTES TO FINANCIAL STATEMENTS

March 31, 2004

Note 1 – Summary of Significant Accounting Policies (continued)

Property Taxes

Property taxes and other revenue that are both measurable and available for use to finance operations are recorded as revenue when earned.

Properties are assessed as of December 31 and the related property taxes become a lien on July 1 of the following year. These taxes are due on February 14 with the final collection date of February 28 before they are added to the county tax rolls. The City's 2003 tax roll millage rate was 13.2411 mills, and the taxable value was \$4,156,715.00.

Fixed Assets and Depreciation

Fixed assets in the Water Fund are depreciated using the straight-line method over the estimated useful lives of the assets. Additions, improvements and major replacements are capitalized at cost. Maintenance, repairs and minor replacements are charged to expense as incurred. Purchases of fixed assets for all other funds are recorded as expenditures in their respective funds at the time of purchase. The City has not maintained the General Fixed Assets Group of Accounts which is required by generally accepted accounting principles.

Investments

Investments are stated at market.

Receivables

Receivables have been recognized for all significant amounts due to the City. Allowances for uncollectible accounts have not been provided for in that collection is not considered doubtful and any uncollected amounts would be immaterial.

Inventories

Inventories of supplies are considered to be immaterial and are not recorded.

Compensated Absences (Vacation and Sick Leave)

Employees are not allowed to accumulate vacation and sick pay and therefore no accumulated amount is recorded in the financial statements.

CITY OF OMER
Arenac County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2004

Note 1 – Summary of Significant Accounting Policies (continued)

Budgets and Budgetary Accounting

The following procedures are followed in establishing the budgetary data reflected in these general purpose financial statements:

1. Prior to the beginning of the fiscal year, the proposed budget for each budgetary fund is submitted to the City Council for consideration.
2. The proposed budgets include expenditures as well as the methods of financing them.
3. Public hearings are held to obtain taxpayer comments.
4. The budgets are adopted at the functional level by a majority vote of the City Council.
5. The budgets are adopted on the modified accrual basis of accounting.
6. The originally adopted budgets can be amended during the year only by a majority vote of the City Council.
7. The adopted budgets are used as a management control device during the year for all budgetary funds.
8. Budget appropriations lapse at the end of each fiscal year.
9. The budgeted amounts shown in these general purpose financial statements are the originally adopted budgets with all amendments that were approved by the City Council during the fiscal year.

Encumbrances

Encumbrances involving the current recognition of purchase orders, contracts and other commitments for future expenditures are not recorded.

Postemployment Benefits

The City provides no postemployment benefits to past employees.

CITY OF OMER
Arenac County, Michigan

NOTES TO FINANCIAL STATEMENTS

March 31, 2004

Note 2 – Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes the City to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The City Council has designated one bank for the deposit of City funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all investments authorized by state law as listed above.

The City's deposits and investments are in accordance with statutory authority.

The Governmental Accounting Standards Board Statement No. 3, risk disclosures for the cash deposits are as follows:

	<u>Carrying Amounts</u>
Total Deposits	<u>337 243 93</u>
Amounts in the bank balances are without considering deposits in transit or uncleared checks.	
	<u>Bank Balances</u>
Insured (FDIC)	100 501 53
Uninsured and Uncollateralized	<u>241 353 44</u>
Total Deposits	<u>341 854 97</u>

As of March 31, 2004, the City of Omer did not have any investments.

CITY OF OMER
Arenac County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2004

Note 3 – Fixed Assets

A summary of proprietary fund type property, plant, and equipment at March 31, 2004, follows:

	<u>Enterprise Fund</u>
Water system	852 990 50
Less accumulated depreciation	<u>(178 079 86)</u>
Net Carrying Amount	<u><u>674 910 64</u></u>

Note 4 – Interfund Receivables and Payables

The amounts of interfund receivables and payables are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General	50 783 57	Current Tax Collection	50 783 57
M.V.H. Local Street	<u>999 28</u>	M.V.H. Major Street	<u>999 28</u>
Total	<u><u>51 782 85</u></u>	Total	<u><u>51 782 85</u></u>

Note 5 – Water Revenue Bonds

On March 12, 1997, the City sold water revenue bonds, series A in the amount of \$277,000.00 and series B in the amount of \$90,000.00. The bond proceeds are to be used to partially pay for improvements to the water system. The bonds which bear interest at the rate of 4.5% per annum are recorded in the Water Fund. As of March 31, 2004, the principal balance of the bonds outstanding was:

<u>Due April 1</u>	<u>Principal Amount</u>
2005	5 000 00
2006	5 000 00
2007	5 000 00
2008	5 000 00

CITY OF OMER
Arenac County, Michigan

NOTES TO FINANCIAL STATEMENTS

March 31, 2004

Note 5 – Water Revenue Bonds (continued)

<u>Due April 1</u>	<u>Principal Amount</u>
2009	5 000 00
2010	7 000 00
2011	7 000 00
2012	7 000 00
2013	7 000 00
2014	7 000 00
2015	8 000 00
2016	8 000 00
2017	8 000 00
2018	8 000 00
2019	9 000 00
2020	9 000 00
2021	9 000 00
2022	11 000 00
2023	11 000 00
2024	11 000 00
2025	12 000 00
2026	12 000 00
2027	12 000 00
2028	13 000 00
2029	14 000 00
2030	16 000 00
2031	16 000 00
2032	17 000 00
2033	17 000 00
2034	18 000 00
2035	19 000 00
2036	<u>19 000 00</u>
Total	<u><u>337 000 00</u></u>

Note 6 – Deferred Compensation Plan

The City does not have a deferred compensation plan.

CITY OF OMER
Arenac County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2004

Note 7 – Pension Plan

The City does not have a pension plan.

Note 8 – Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors, omissions, and employee injuries (workers' compensation). The City has purchased commercial insurance for property loss, torts and workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 9 – Transfers In and Transfers Out

For the fiscal year ended, March 31, 2004, the City made the following interfund transfers:

<u>Fund</u>	<u>Transfers In</u>	<u>Fund</u>	<u>Transfers Out</u>
Local Street Fund	<u>5 144 22</u>	Major Street Fund	<u>5 144 22</u>
Total	<u><u>5 144 22</u></u>	Total	<u><u>5 144 22</u></u>

Note 10 – Building Permits

The City of Omer does not issue building permits. Building permits are issued by the County of Arenac.

Note 11 – Budget Variances

During the fiscal year ended March 31, 2004, the City expenditures exceeded the budgeted amounts as follows:

	<u>Total Budget</u>	<u>Total Expenditures</u>	<u>Budget Variances</u>
Services Fund: Sanitation	14 715 00	15 354 60	639 60

CITY OF OMER
Arenac County, Michigan

NOTES TO FINANCIAL STATEMENTS

March 31, 2004

Note 12 – Total Columns on Combined Statements--Overview

The total columns on the combined financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation, because interfund eliminations have not been made in the aggregation of this data.

CITY OF OMER
Arenac County, Michigan

COMBINING BALANCE SHEET – ALL SPECIAL REVENUE FUNDS

March 31, 2004

EXHIBIT F

	<u>M.V.H. Major Street</u>	<u>M.V.H. Local Street</u>	<u>Services</u>	<u>Total</u>
<u>Assets</u>				
Cash in bank	52 156 91	34 389 08	17 798 69	104 344 68
Taxes receivable	-	-	2 755 00	2 755 00
Due from State of Michigan	3 997 12	2 550 36	-	6 547 48
Due from other funds	<u>-</u>	<u>999 28</u>	<u>-</u>	<u>999 28</u>
Total Assets	<u>56 154 03</u>	<u>37 938 72</u>	<u>20 553 69</u>	<u>114 646 44</u>
<u>Liabilities and Fund Balances</u>				
Liabilities:				
Due to other funds	<u>999 28</u>	<u>-</u>	<u>-</u>	<u>999 28</u>
Total liabilities	<u>999 28</u>	<u>-</u>	<u>-</u>	<u>999 28</u>
Fund balances:				
Unreserved:				
Undesignated	<u>55 154 75</u>	<u>37 938 72</u>	<u>20 553 69</u>	<u>113 647 16</u>
Total fund balances	<u>55 154 75</u>	<u>37 938 72</u>	<u>20 553 69</u>	<u>113 647 16</u>
Total Liabilities and Fund Balances	<u>56 154 03</u>	<u>37 938 72</u>	<u>20 553 69</u>	<u>114 646 44</u>

CITY OF OMER
Arenac County, Michigan

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES – ALL SPECIAL REVENUE FUNDS EXHIBIT G
Year Ended March 31, 2004

	<u>M.V.H. - Major Street</u>	<u>M.V.H. – Local Street</u>	<u>Services</u>	<u>Total</u>
Revenues:				
State revenue sharing	20 576 86	13 439 14	-	34 016 00
Interest	364 21	141 69	91 23	597 13
Special assessments	-	-	14 788 36	14 788 36
Miscellaneous	<u>185 11</u>	<u>368 49</u>	<u>-</u>	<u>553 60</u>
Total revenues	<u>21 126 18</u>	<u>13 949 32</u>	<u>14 879 59</u>	<u>49 955 09</u>
Expenditures:				
Sanitation	-	-	15 354 60	15 354 60
Highways and streets	<u>10 099 13</u>	<u>18 220 66</u>	<u>-</u>	<u>28 319 79</u>
Total expenditures	<u>10 099 13</u>	<u>18 220 66</u>	<u>15 354 60</u>	<u>43 674 39</u>
Excess (deficiency) of revenues over expenditures	<u>11 027 05</u>	<u>(4 271 34)</u>	<u>(475 01)</u>	<u>6 280 70</u>
Other financing sources (uses):				
Operating transfers in	-	5 144 22	-	5 144 22
Operating transfers out	<u>(5 144 22)</u>	<u>-</u>	<u>-</u>	<u>(5 144 22)</u>
Total other financing sources (uses)	<u>(5 144 22)</u>	<u>5 144 22</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	5 882 83	872 88	(475 01)	6 280 70
Fund balances, April 1	<u>49 271 92</u>	<u>37 065 84</u>	<u>21 028 70</u>	<u>107 366 46</u>
Fund Balances, March 31	<u>55 154 75</u>	<u>37 938 72</u>	<u>20 553 69</u>	<u>113 647 16</u>

CITY OF OMER
Arenac County, Michigan

CURRENT TAX COLLECTION FUND
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
Year Ended March 31, 2004

EXHIBIT H

	<u>Balance</u> <u>4/1/03</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>3/31/04</u>
<u>Assets</u>				
Cash in Bank	<u>1 436 42</u>	<u>166 982 60</u>	<u>109 162 22</u>	<u>59 256 80</u>
<u>Liabilities</u>				
Due to other funds	1 436 42	61 317 15	11 970 00	50 783 57
Due to other units	-	<u>105 665 45</u>	<u>97 192 22</u>	<u>8 473 23</u>
Total Liabilities	<u>1 436 42</u>	<u>166 982 60</u>	<u>109 162 22</u>	<u>59 256 80</u>

CITY OF OMER
Arenac County, Michigan

CURRENT TAX COLLECTION FUND
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
Year Ended March 31, 2004

EXHIBIT I

Cash in bank – beginning of year	<u>1 436 42</u>
Cash receipts:	
Current property tax	165 275 28
Property tax administration fees	1 519 34
Animal licenses	41 00
Interest	<u>146 98</u>
Total cash receipts	<u>166 982 60</u>
Total beginning balance and cash receipts	<u>168 419 02</u>
Cash disbursements:	
City Services Fund	11 970 00
Arenac County	41 712 24
Bay – Arenac Intermediate School District	15 046 00
Arenac Eastern School District	39 918 00
Refunds	<u>515 98</u>
Total cash disbursements	<u>109 162 22</u>
Cash in Bank - End of Year	<u>59 256 80</u>

CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

MARK J. CAMPBELL, CPA
KENNETH P. KUSTERER, CPA

512 N. LINCOLN AVE. - SUITE 100
P.O. BOX 686
BAY CITY, MICHIGAN 48707

TEL (989) 894-1040
FAX (989) 894-5494

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS EXHIBIT J

May 8, 2004

To the City Council
City of Omer
Arenac County, Michigan

We have audited the financial statements of City of Omer, Arenac County, Michigan as of and for the year ended March 31, 2004, and have issued our report thereon dated May 8, 2004. We conducted our audit in accordance with generally accepted auditing standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As a part of obtaining reasonable assurance about whether City of Omer's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect of the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclose no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Omer's internal control over financial reporting in order to determine our auditing procedures for the purposes of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted an inadequate control over cash transaction caused by an inherent lack of segregation of duties which is due to the limited number of office personnel employed involving the internal control over financial reporting and its operation that we consider to be a material weakness.

This report is intended for the information of management and other regulatory agencies. However, this report is a matter of public records and its distribution is not limited.

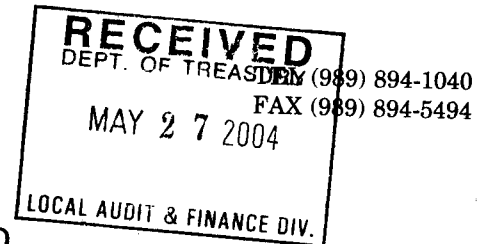
Campbell, Kusterer & Co., P.C.
CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants

CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

MARK J. CAMPBELL, CPA
KENNETH P. KUSTERER, CPA

512 N. LINCOLN AVE. - SUITE 100
P.O. BOX 686
BAY CITY, MICHIGAN 48707



AUDIT COMMUNICATION AND REPORT OF COMMENTS AND RECOMMENDATIONS

May 8, 2004

To the City Council
City of Omer
Arenac County, Michigan

We have audited the financial statements of the City of Omer, for the year ended March 31, 2004. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES

We conducted our audit of the financial statements of the City of Omer in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than those items of lesser importance or those in which the possibility of material error is remote.

To the City Council
City of Omer
Arenac County, Michigan

For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies are described in Note 1 to the financial statements.

OTHER COMMUNICATIONS

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have no significant issues, regarding these matters, to report to you at this time. Audit adjustments were minimal, and are available to review.

To the City Council
City of Omer
Arenac County, Michigan

GASB 34 IMPLEMENTATION

The Governmental Accounting Standards Board issued a new reporting model for governmental units which is to be implemented over the next few years. The implementation date of this pronouncement for the City of Omer will begin with the year ended March 31, 2004, and will need to be implemented fully by March 31, 2005. The daily operations and recording transactions should not change significantly, however, the City will be required to maintain additional records for the year end adjustments to the final presentation format.

COMMENTS AND RECOMMENDATION REGARDING INTERNAL CONTROLS/ COMPLIANCE/ EFFICIENCY

Our procedures disclosed the following conditions that we would like to bring to your attention:

SEGREGATION OF DUTIES

A separation of duties between persons who authorize transactions and persons who have control over the related assets does not always exist.

The least desirable accounting system is one in which an employee is responsible for executing the transaction and then recording the transaction from its origin to its ultimate posting in the General Ledger. This increases the likelihood that intentional or unintentional errors will go undetected. In most cases, adequate segregation of duties substantially increases control over errors without duplication of effort.

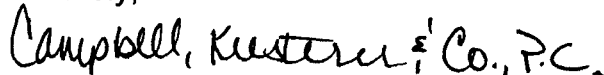
We understand that due to the size of needed staff, a proper segregation of duties may be impractical and the "cost to benefit" relationship may not justify the addition of accounting staff to accomplish the desired segregation.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the City's financial statements and this communication of these matters does not affect our report on the City's financial statements, dated March 31, 2004.

SUMMARY

We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Sincerely,



CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants